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BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application for Approval for Integrys Energy Group, Inc. and
Wisconsin Public Service Corporation for Formation of a Service
Company

5-UI-111

FINAL DECISION

This is the Final Decision in the June 8, 2007, application of Integrys Energy Group, Inc. (Integrys) and Wisconsin Public Service Corporation (WPSC) for the approvals required to form a centralized service company, Integrys Business Support LLC (IBS), for the cost-effective provision of shared services to WPSC and other regulated and non-regulated subsidiaries of Integrys. The application is GRANTED subject to the conditions set forth below.

Introduction

Background

On February 16, 2007, the Commission approved the merger, combination, and reorganization of WPS Resources Corporation (WPSR)¹ and Peoples Energy Corporation (PEC)² in docket 9405-YI-100. The Commission conditioned its approval upon the formation of a

¹ WPS Resources Corporation (WPSR), a Wisconsin corporation, is a holding company with five major energy-related subsidiaries: WPSC; Upper Peninsula Power Company (UPPCo); Michigan Gas Utilities Corporation (MGU); Minnesota Energy Resources Corporation (MERC); and WPS Energy Services, Inc. (ESI). These subsidiaries provide electric and natural gas energy and related services in both regulated and non-regulated energy markets. WPSR's regulated operations serve customers in Wisconsin, Michigan, and Minnesota, and its non-regulated businesses service customers primarily in the northeastern U.S., Texas, and Canada. WPSR has several other, less substantial subsidiaries.

² Peoples Energy Corporation (PEC), an Illinois corporation, is a holding company with four primary business segments: gas distribution; oil and gas production; energy assets; and Docket 9405-YI-100 energy marketing. Its gas distribution segment includes two regulated Illinois distribution companies, Peoples Gas Light and Coke Company (Peoples Gas) and North Shore Gas Company (North Shore). PEC also owns an energy marketing business and an oil and natural gas production company. Other subsidiaries of PEC own interests in generating assets, which PEC is in the process of divesting in connection with exiting this business segment. PEC has a number of less substantial subsidiaries.

centralized service company within 120 days of merger closing.³ Effective February 21, 2007, PEC, an Illinois public utility holding company, became a wholly-owned subsidiary of WPSR, a Wisconsin public utility holding company, and WPSR changed its name to Integrys.

On June 8, 2007, Integrys and WPSC filed an application for the approvals required to form a centralized service company, Integrys Business Support LLC (IBS or Support), for the cost-effective provision of shared services to WPSC and other regulated and non-regulated subsidiaries of Integrys. The application sought the following approvals or waivers:

(1) approval pursuant to Wis. Stat. §§ 196.52 and 196.795(5)(r) and (s) of the affiliated interest arrangements associated with the formation of, and transfer of employees and property to, IBS; (2) approval pursuant to Wis. Stat. § 196.52(3) of the Master Affiliated Interest Agreement that will govern IBS's provision of shared services to WPSC and Integrys' other regulated subsidiaries; (3) approval pursuant to Wis. Stat. § 196.52(3) of the continued effectiveness of the existing Commission-approved affiliated interest agreements that will govern the limited provision of other inter-company services within the Integrys holding company system that will not be provided by IBS; and (4) affirmation of the continued waivers of the Commission's Natural Gas Standards of Conduct to WPSC and its regulated affiliates in Illinois, Michigan, and Minnesota (docket 6690-AU-112), which will now, to the extent required, apply to IBS's provision of certain shared services to Integrys's five gas operating utilities.

³ Final Order, docket 9405-YI-100, February 16, 2007, Order points 13 and 17. "Within 120 days after closing, Wisconsin Public Service Corporation (WPSC) will apply for the Commission's approval under Wis. Stat. §§ 196.52 and 196.795(5)(r) and (s) of the affiliated interest transactions and agreements associated with a service company. With the application, WPSC will file its plan and schedule of operation after all federal, state and local regulatory approvals of the service company are received."

Procedural Process

The Commission held a prehearing conference on July 18, 2007, to identify the parties; identify the issues; determine the type, date and time for hearing; specify filing dates for testimony and exhibits; and any other matters necessary to facilitate the hearing. The matter was set for hearing on October 9 and 10, 2007.

In early September 2007, the company initiated discussions with the parties in an effort to resolve the issues prior to hearing. Several telephone conference calls were held to work through the different positions. On September 13, 2007, agreement was reached and a settlement document was drafted. The Settlement Agreement, "Memorandum of Settlement Conditions," dated September 24, 2007, and signed by the parties on November 13, 2007, is attached as Appendix B.

The Commission considered this matter at its open meeting on November 29, 2007.

Findings of Fact

1. WPSC is a public utility, as defined in Wis. Stat. § 196.01(5). WPSC is engaged in the generation and distribution of electricity and in the purchase, transportation, and distribution of natural gas to customers in Wisconsin.
2. Integrys is a Wisconsin holding company subject to the jurisdiction of the Commission under Wis. Stat. § 196.795.
3. WPSC, UPPCo, MGU, MERC, Peoples Gas, North Shore, IBS, and the non-regulated subsidiaries listed in Exhibit A to Attachment 1 of this Final Decision are wholly-owned subsidiaries of Integrys.

4. WPSC, UPPCo, MGU, MERC, Peoples Gas, North Shore, IBS, and the non-regulated subsidiaries listed in Exhibit A to Attachment 2 of this Final Decision are affiliated interests pursuant to Wis. Stat. §§ 196.52 and 196.795.

5. WPSC, UPPCo, MGU, MERC, Peoples Gas, North Shore, and IBS are gas marketing affiliates as defined in the Natural Gas Standards of Conduct.

6. The Settlement Agreement attached as Appendix B and incorporated herein contains the terms and conditions agreed to by the parties in this proceeding. Those terms and conditions are necessary and reasonable for the protection of the public interest and Commission approval of the service company formation.

Conclusions of Law

1. The Commission has authority to approve the formation of the service company under Wis. Stat. §§ 196.02, 196.06, 196.09, 196.21, 196.395, 196.52, and 196.795.

2. The Commission has authority to approve the attached Affiliated Interest Agreements under Wis. Stat. § 196.52(3) and the authority to condition its approval under Wis. Stat. §§ 196.395 and 196.52(5).

3. The formation of the service company and the associated Affiliated Interest Agreements are reasonable and consistent with the public interest as a matter of law.

4. The Commission has authority to grant waivers from the Natural Gas Standards of Conduct.

Discussion

The Settlement

The Settlement Agreement addresses the ownership, structure and governance of IBS; the initial and subsequent transfers of assets from WPSC to IBS; the funding of IBS; the services provided by IBS (“sub-contracting”); the continuation of the existing Regulated and Non-Regulated Affiliated Interest Agreements (docket 6690-AU-112); and modifications to the new Regulated Affiliated Interest Agreement resulting from the Illinois Commerce Commission (ICC) proceeding. The settlement points are listed by area of concern in the Settlement Agreement.

The settlement points are necessary to protect the public interest. It is reasonable, based on the settlement agreed to among the parties in this proceeding as codified in the Settlement Agreement, that the Commission approve the formation of the service company.

Waiver of the Natural Gas Standards of Conduct

Integrus and WPSC requested affirmation of the continued waivers of the Commission’s Natural Gas Standards of Conduct to WPSC and its regulated affiliates in Illinois, Michigan, and Minnesota (docket 6690-AU-112), which would now, to the extent required, apply to IBS’s provision of certain shared services to Integrus’ five natural gas operating utilities.

The Natural Gas Standards of Conduct were established to ensure that market participants had the opportunity to purchase capacity and supply released by a Wisconsin natural gas utility and that the utility receive the best price for the sale. They also ensure that gas marketing affiliates of Wisconsin natural gas utilities were not subsidized or otherwise favored at the expense of other market participants.

The Natural Gas Standards of Conduct apply to all marketing affiliates—regulated or non-regulated. While intended to deal primarily with potential inappropriate behavior between regulated utilities and their non-regulated marketing affiliates, they are applicable to regulated entities in the same or different jurisdictions. Inappropriate cross-subsidization, preferential treatment, or market manipulation can occur between jurisdictions, service territories, types of energy, and/or classes of customers. The fact that WPSC, MGU, MERC, Peoples Gas, and North Shore are separate entities operating in regulated markets with one-for-one gas recovery mechanisms lessens some of the concerns and allows for a limited waiver of the Natural Gas Standards of Conduct.

In docket 6690-AU-112, WPSC requested a general waiver, subject to certain exceptions of the “Corporate Standards for Separation between Utilities and Gas Marketing Affiliates” (Separation Standards) as they may apply to interactions between WPSC and its regulated natural gas utility affiliate.⁴ WPSC requested that the waiver remain in place as long as WPSC, MGU, MERC, Peoples Gas, and North Shore each maintain a one-for-one gas cost recovery mechanism.

In this proceeding, WPSC is requesting that the same general waiver be extended to the centralized service company, IBS, in its provision of centralized gas functions. In docket 6690-AU-108, WPSC proposed that the gas functions⁵ for all five natural gas utilities be

⁴ WPSC did not seek a waiver of the “General Standards for Natural Gas Opportunity Sales,” the “Conditions for Sales,” or the “Administrative” and “Restrictions and Enforcement” standards as they apply to the non-waived portions of the Standards of Conduct. Natural Gas Standards of Conduct were adopted by the Commission in its January 13, 1997, Phase II order in docket 05-GI-108.

⁵ Including: (1) the purchasing, marketing and selling of natural gas (including hedging and other risk management tools); (2) the scheduling, interrupting and curtailing of natural gas deliveries; (3) the acquiring, selling, releasing, and managing of pipeline transportation capacity or storage capacity; and (4) the pricing and administration of tariff and non-tariff products and services.

performed on a centralized basis. Costs associated with gas functions will be allocated among WPSC, MGU, MERC, Peoples Gas, and North Shore in accordance with that affiliated interest agreement (docket 6690-AU-112). To the extent that IBS provides any of those centralized gas functions, the costs associated with those gas functions will be allocated among WPSC, MGU, MERC, Peoples Gas, and North Shore in accordance with the Regulated Agreement attached to this Final Order as Attachment 1. WPSC, MGU, MERC, Peoples Gas, and North Shore will obtain gas supplies, interstate pipeline transportation, and storage services through either distinct contracts or specifically allocated portions of contracts, as described in the gas supply plans that WPSC and MGU file annually with the Commission and the Michigan Public Service Commission.⁶ To the extent IBS obtains gas supplies, interstate pipeline transportation, and storage services either as agent for each regulated utility or on a centralized basis, it shall do so through distinct contracts for a particular utility or specifically allocated portions of contracts (to each utility) that are described in the gas supply plans filed by the various utilities with the state commissions.

It is reasonable that the Commission grant a waiver that accomplishes a list of company interactions. WPSC, MGU, MERC, Peoples Gas, and North Shore through IBS may share utility gas operating personnel, the provision of consulting services regarding gas functions, and the use of facilities, equipment and services in the provision and performance of gas functions related to utility service. WPSC, MGU, MERC, Peoples Gas, and North Shore will keep separate gas portfolios. Existing joint pipeline capacity contracts between MGU and MERC are

⁶ Minnesota has an annual pipeline demand entitlement filing and gas supplies are separately reviewed by the Minnesota Public Utilities Commission at the end of each fiscal year.

grandfathered. Peoples Gas sells storage services to North Shore pursuant to an Illinois Commerce Commission approved agreement; that arrangement is grandfathered. Peoples Energy Wholesale Marketing (an indirect subsidiary of PEC) provides gas storage services to WPSC pursuant to Commission approved gas supply plans; future provision of those services will be approved or denied by the Commission in the gas supply plan process. No future joint/shared contracts are permitted including any contracts obtained by IBS. Any long-term releases, directly or indirectly,⁷ between WPSC and any of the other four entities will require separate affiliated interest approval. MGU, MERC, Peoples Gas, and North Shore will be stand-alone entities with respect to WPSC.

MGU, MERC, Peoples Gas, and North Shore's books will be kept separate from WPSC's books. WPSC, MGU, MERC, Peoples Gas, and North Shore will share individual account information only to the extent necessary for the centralized performance of their gas functions. Individual account information will be treated as confidential, non-public information and may not be disclosed to any non-regulated gas marketing affiliate, except as expressly requested by the customer. WPSC may not perform audits of MGU, MERC, Peoples Gas, and North Shore. WPSC employees may be used by Integrys in performing these audits if requested. Any information learned by WPSC or IBS employees in the course of those audits will be treated as confidential. WPSC, or IBS as its agent, may not participate in joint advertising, as defined in the Natural Gas Standards of Conduct, with MGU, MERC, Peoples Gas, and North Shore.

WPSC, MGU, MERC, Peoples Gas, and North Shore will share customer lists only to the extent necessary for the centralized provision of their gas functions. Such lists will be treated as

⁷ Including any transactions facilitated or performed by IBS.

confidential, non-public information and may not be disclosed to any non-regulated gas marketing affiliate.

WPSC, MGU, MERC, Peoples Gas, North Shore, and IBS may not condition or tie agreements for gas or capacity sales or releases to any agreement requiring the purchase or use of any service provided by any gas marketing affiliate. WPSC, MGU, MERC, Peoples Gas, and North Shore will each operate under a one-for-one gas cost recovery mechanism, including the modified one-for-one gas cost recovery mechanism the Commission has approved for WPSC. Implementation of an incentive gas cost recovery mechanism by any one of the utilities will cause the waiver to expire for that individual utility; implementation by WPSC will cause the waiver to expire in its entirety.

WPSC, MGU, MERC, Peoples Gas, North Shore, and IBS will be subject to the Natural Gas Standards of Conduct regarding transactions or behavior with any non-regulated gas marketing affiliate, whether a separate entity or a below the line division or activity of the utility.

The centralized provision of gas functions through IBS may not be used to circumvent the intent of the Commission's Natural Gas Standards of Conduct.

Non-Regulated Affiliated Interest Agreement

Integrus and WPSC did not request Commission approval of the Non-Regulated Agreement (Attachment 2). The Commission is charged with duties to oversee affiliated transactions occurring between WPSC and its associated companies and to guard against anti-competitive behavior by public utility holding companies. Moreover, the Commission's determination that the Integrus merger was consistent with the public interest, in docket 9405-YI-100, relied in part on certain assumptions about how cost allocations would occur

subsequent to merger consummation, as well as how cost allocations would accrue to WPSC ratepayers. In protecting the public interest, it is necessary for the Commission to ensure that those assumptions are realized. To carry out its responsibilities and to preserve its ability to establish retail electric and gas rates for WPSC, the Commission finds it necessary to assert jurisdiction over both the Regulated and Non-Regulated IBS service agreements.

IBS will provide services to client companies under both the Regulated and Non-Regulated Agreements. In provision of certain services to both regulated and non-regulated clients, IBS will use the same assets, personnel, and allocation factors. The two agreements are part of a contractual arrangement, with IBS providing the common factor.

The Commission will assert jurisdiction over the Non-Regulated Agreement to do those things necessary to ensure the public interest, for the fair and equitable provision of services by IBS in a manner that prohibits inappropriate subsidizations, and the maintenance of the financial health of WPSC.

Service Company Formation

With the implicit incorporation of the Commission's statutory authority, the conditions and order points contained in this Final Decision are sufficient to reasonably protect the public interest and give approval to the service company formation, the associated Regulated and Non-Regulated Agreements (Attachments 1 and 2), and the extension of the limited and conditioned waiver of the Natural Gas Standards of Conduct.

Order

1. This Final Decision shall be effective on the day following the date of mailing.
2. Nothing in this Final Decision invalidates or modifies the Commission's Final Decision in the merger docket 9405-YI-100.
3. The Settlement Agreement (Appendix B) is incorporated into this Final Decision as a matter of law.
4. All transactions shall be in accordance with the Regulated Agreement (Attachment 1) and the Non-Regulated Agreement (Attachment 2) as modified to incorporate the language discussed above and this Final Decision.
5. WPSC shall submit signed copies of the revised agreements within 30 days of the date of this Final Decision.
6. WPSC shall obtain Commission approval prior to the effective date of any suspension, modification, or termination of the revised Agreements.
7. WPSC shall notify the Commission simultaneously of any service company filing at the Federal Energy Regulatory Commission and/or the other state jurisdictions.
8. Approval of these agreements is not a determination by the Commission that any charges are just and reasonable.
9. The general waiver from the Corporate Standards for Separation Between Utilities and Gas Marketing Affiliates of the Natural Gas Standards of Conduct is granted subject to the conditions discussed in this Final Decision.

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10. The accounting and record-keeping procedures of WPSC and its affiliates, including IBS, shall provide an adequate audit trail acceptable to the Commission.

11. Jurisdiction is retained.

Dated at Madison, Wisconsin, December 3, 2007

By the Commission:


Sandra J. Paske
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

APPENDIX A
(CONTESTED)

In order to comply with Wis. Stat. § 227.47, the following parties who appeared before the agency are considered parties for purposes of review under Wis. Stat. § 227.53.

Public Service Commission of Wisconsin
(Not a party but must be served)
610 N. Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

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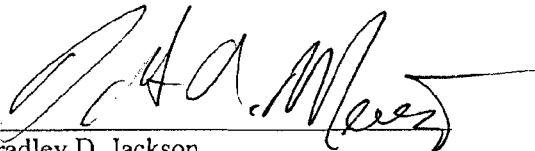
BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Integrys Energy Group, Inc.
and Wisconsin Public Service Corporation
for Approval of Various Arrangements and
Affiliated Interest Agreements
Related to the Formation and Operation
of a Service Company

Docket No. 05-UI-111


STIPULATION ON CONDITIONS OF
COMMISSION APPROVAL ORDER

The parties, by their respective counsel, hereby stipulate to the Commission's imposition of the conditions set forth in the attached "Memorandum of Settlement Conditions" dated September 24, 2007, as a condition of the Applicants' receipt of the approvals requested in this docket.



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Industrial Energy Group, Inc.

Dated: November 13, 2007

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

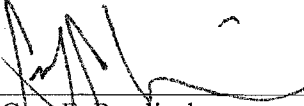
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Dated: November 13, 2007

Memorandum of Settlement Conditions
Docket No. 05-UI-111

Pursuant to Wis. Stat. § 227.44(5), the Applicants, Staff and Intervenors have agreed to resolve all issues in this proceeding by stipulation, without the need for a formal hearing. This Memorandum sets forth the conditions that Staff will insert into its memorandum and proposed order for consideration by the Commission.

Listed below are the agreed-upon conditions that will be imposed upon Applicants as a condition of receipt of the approval order requested by Applicants in this docket.

Ownership, Structure and Governance of Integrys Support

1. Integrys Business Support, LLC (“Integrys Support”) shall be a single-member LLC owned directly by Integrys Energy Group, Inc. (“Integrys,” the ultimate parent in the WPSC holding company system). Prior to Integrys Support becoming operational, WPSC shall assign its membership interest in Integrys Support to Integrys.
2. WPSC may not become a member of Integrys Support without the prior written approval of the Commission.
3. Integrys Support shall remain a “centralized service company” as that term is defined by the FERC, and shall comply with the USOA and other applicable rules and regulations for centralized service companies as promulgated by the FERC.

Initial and Subsequent Transfers of Assets from WPSC to Integrys Support

4. Before or after Integrys Support becomes operational, WPSC may, indirectly through Integrys (in the form of a dividend, return of capital or other form of transfer to Integrys that is valued at the book value of the assets as of the time of the transfer), transfer to Integrys Support those assets which are necessary for Integrys Support’s provision of inter-company services; provided, however, that if determined by WPSC to be practical and beneficial, WPSC may instead lease such assets to Integrys Support, provided that Integrys Support compensates WPSC for such assets at a lease rate that approximates the revenue requirement associated with such assets.
5. If the above-authorized lease option is utilized by WPSC, WPSC will file a copy of written lease terms (along with proposed accounting entries) with the Commission at least thirty days prior to the commencement of such lease.
6. No later than thirty (30) days after the last day of each fiscal year quarter in which any lease described in Condition Nos. 4-5 above is in effect, WPSC shall file a quarterly report with the Commission detailing the terms of such lease(s) for each leased asset.

Financing of Integrys Support

7. Integrys Support will be funded directly by Integrys via equity infusions and credit facilities, or will otherwise raise debt or equity to support its initial and ongoing capital requirements in a manner that does not require deposits or investments from WPSC.

Services Provided by Integrys Support; WPSC "Sub-Contracting"

8. Integrys Support shall be added as a party to the existing Non-Regulated Agreement.
9. Sub-contracting of WPSC by Integrys Support, as proposed in this proceeding to permit the continuation of existing arrangements between WPSC and three of its affiliates (ATC, WRPCo and WVIC), may occur as proposed. Absent prior written approval of the Commission, WPSC may not hire or otherwise utilize Integrys Support for the provision of sub-contracted services to any other third party.
10. WPSC shall file with the Commission a quarterly report, no later than thirty (30) days after the last day of each fiscal year quarter, detailing the services provided by Integrys Support as WPSC's sub-contractor, along with information regarding the charges imposed and paid for such services.

Continuation of Regulated Agreement and Non-Regulated Agreement

11. Integrys Support shall abide by Condition No. 15 in the Commission's Merger approval order, requiring that Integrys Support "shall be limited to performing services where there are efficiencies and economies of scale that could not be achieved if the services were not performed by the service company."
12. WPSC shall not provide any inter-company services under the existing Regulated Agreement or Non-Regulated Agreement if such services could be provided by Integrys Support under the Regulated AIA or Non-Regulated AIA in a manner consistent with Condition No. 15 in the Commission's Merger approval order
13. WPSC shall file with the Commission a quarterly report, no later than thirty (30) days after the last day of each fiscal year quarter, detailing the services provided to its affiliates under the existing Regulated Agreement and Non-Regulated Agreement, along with information regarding the charges imposed and paid for such services.
14. No later than the one-year anniversary of the commencement of operations by Integrys Support, WPSC and its affiliates shall seek approvals or waivers from the Commission of new, narrowly-tailored master affiliated interest agreements to replace the existing Regulated Agreement and Non-Regulated Agreement as the master agreements governing the provision of any inter-company services within the Integrys holding company system that cannot be provided by Integrys Support.

Modifications to the Regulated AIA resulting from the ICC Proceeding

15. The modifications to the Regulated AIA agreed to by Applicants' affiliates in the Integrys Support approval proceeding before the ICC, as described in the record established in the ICC proceeding, are approved by the Commission.

MASTER REGULATED AFFILIATED INTEREST AGREEMENT

THIS MASTER REGULATED AFFILIATED INTEREST AGREEMENT ("Agreement") is entered into this ____ day of _____, 2007, by and among Integrys Business Support, LLC, a Delaware limited liability company ("Integrys Support") and all of the regulated subsidiaries of Integrys Energy Group, Inc. ("Integrys") as listed and defined on Exhibit A. All of the parties to this Agreement shall be collectively referred to as "Parties," and all of the Parties other than Integrys Support shall be collectively referred to as the "Client Companies."

RECITALS

A. Each of the Client Companies is a state-regulated utility operating company, a wholly-owned subsidiary of Integrys, and an affiliated interest of the other Parties pursuant to the applicable public utility law of Wisconsin, Michigan, Minnesota, and Illinois.

B. In order to maximize efficiencies and economies of scale, the Parties desire to plan and operate their regulated utility businesses with the integration of certain activities by receiving services, employees, properties, information systems, property, services and/or anything else of commercial value from a single centralized service company provider.

C. Integrys Support and the Client Companies desire to enter into this Agreement whereby Integrys Support agrees to provide, and the Client Companies agree to accept and pay for, various services as described herein, with such payments by the Client Companies being at the fairly and equitably allocated costs as also provided herein.

D. From time to time Integrys Support will perform various services for or on behalf of the Client Companies, and further Integrys Support will make its property, employees and other things of value available to or for use by the Client Companies, all of which transactions are affiliated interest arrangements subject to the regulatory jurisdiction of the Public Service

Exhibit 2.1

Commission of Wisconsin ("PSCW"), Michigan Public Service Commission ("MPSC"), Minnesota Public Utilities Commission ("MPUC"), and Illinois Commerce Commission ("ICC") (collectively the "Commissions") pursuant to applicable Wisconsin, Michigan, Minnesota, and Illinois law.

NOW, THEREFORE, the Parties agree as follows:

AGREEMENT

Integrus Support and the Client Companies, in consideration of the mutual promises made in this Agreement, agree as follows:

1.0 Provision of Services by Integrus Support

1.1 The term "services" as used in this Agreement shall include management, supervisory, construction, engineering, accounting, legal, financial, human resources, information services, customer service, accounting, billing, operations and other administrative and general services, including without limitation the provision of any service or any other arrangement which among affiliates may require approvals, waivers or other authorizations under the applicable utility law of the states of Wisconsin, Michigan, Minnesota and/or Illinois.

Exhibit 2.1

- 1.2 Except as otherwise provided herein or required under applicable law, Integrys Support shall furnish to each Client Company services in those categories listed and described in Exhibit B. Integrys Support shall also furnish to each Client Company services in addition to those listed and described in Exhibit B, as may be requested by each such Client Company from time to time, provided that Integrys Support is reasonably able and willing to perform or provide such services, and further provided that if an additional category of services is requested by one or more Client Companies and is provided by Integrys Support hereunder, the Parties shall comply with the requirements of Section 7.3. In connection with its provision of services hereunder, Integrys Support may also from time to time provide or furnish property, assets, rights, interests, or other items of commercial value.
- 1.3 Integrys Support shall furnish to the Client Companies the services described in Section 1.2 in such manner as the Client Companies reasonably require from time to time, unless Integrys Support is not reasonably able to perform or provide such services or is unable to do so in a manner consistent with applicable law.
- 1.4 Notwithstanding any other provision of this Agreement, a Client Company shall, upon at least one hundred twenty (120) days prior written notice, have the right to purchase the services described in Section 1.2 from a service provider other than Integrys Support if: (i) such third party service provider offers comparable services, (ii) the Client Company presents comparable internal and external costing and service data to demonstrate to Integrys Support that the third party services would be provided at a lower all-in price than the all-in price charged by Integrys Support for such services, and (iii) the Client Company presents comparable internal and external costing and service data to demonstrate to

Exhibit 2.1

Integrus Support that provision of the services by a third party service provider will be of overall benefit to the Integrus holding company system. With respect to any such showing by a Client Company, all relevant information that is provided by any Client Company to Integrus Support shall be copied to all of the other Client Companies.

- 1.5 In the event that any Client Company appropriately refuses to take or accept any services from Integrus Support pursuant to Section 1.4, such refusal shall not otherwise affect any other right, duty or obligation of any Party hereunder.
- 1.6 The services described herein shall be directly assigned or allocated by activity, project, program, work order or other appropriate manner on a case-by-case basis. Each Client Company may establish and document with Integrus Support its expectations and requirements with respect to any particular service to be rendered hereunder, including the establishment of targeted service and performance levels and measures to determine whether such service level indicators are being achieved. A Client Company shall have the right from time to time to modify any activity, project, program or work order provided that (i) any such modification that results in a material change in the scope of the services to be performed or equipment to be provided is acceptable to Integrus Support, (ii) the cost for the services covered by the activity, project, program or work order shall include any expense incurred by Integrus Support as a direct result of such modification of the activity, project, program or work order, and (iii) no modification of an activity, project, program or work order shall release a Client Company from liability for payment of all direct or allocable costs already incurred by or contracted for by Integrus Support pursuant to the activity, project, program

Exhibit 2.1

or work order, regardless of whether the services associated with such costs have been completed prior to such modification taking effect.

2.0 Determination of Costs for Services.

- 2.1 All services provided by Integrys Support shall be at cost, as hereinafter defined. It is the intent of the Parties that the payment for services rendered by Integrys Support to the Client Companies hereunder shall cover all of Integrys Support's costs of doing business (less the cost of services provided to affiliates not a party to this Agreement and to non-affiliated companies, and credits for miscellaneous income items), including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization, payroll and other taxes, and compensation for use of capital (with a return on Integrys Support's net assets charged to each Client Company at a rate equal to the prevailing pre-tax weighted cost of capital (economic cost of capital) authorized by the Commission having jurisdiction over the rates of that Client Company).
- 2.2 As compensation to Integrys Support for the services rendered hereunder, each Client Company shall pay to Integrys Support all costs which are reasonably related to the services performed by Integrys Support for or on behalf of such Client Company. Integrys Support shall maintain a detailed cost accumulation and classification system, and shall allocate costs to each Client Company pursuant to the following methodology: (i) to the extent possible and prior to allocating costs pursuant to subsections (ii) and (iii) of this Section 2.2, costs associated with a service that is specifically performed for a single Client

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Company will be directly assigned and billed to that Client Company; all costs directly assigned and billed to any entity taking service from Integrys Support shall be deducted from the amount being allocated in subsections (ii) and (iii) of this Section 2.2; (ii) where more than one Client Company receives benefits from a service, such amounts shall be allocated among such Client Companies (and any other affiliates within the Integrys holding company system to whom the service is rendered by Integrys Support) pursuant to the applicable cost Allocation Factor(s) set forth in Exhibit C; and (iii) where a service provided by Integrys Support is of a general nature applicable to all Client Companies, costs incurred by Integrys Support with respect to such service shall be allocated among the Client Companies (and any other affiliates within the Integrys holding company system to whom applicable services are rendered by Integrys Support) pursuant to the applicable cost Allocation Factor set forth in Exhibit C.

- 2.3 The Allocation Factors set forth in Exhibit C shall be subject to periodic review by Integrys Support in connection with the studies required by Section 4.3, and may be reviewed more frequently if deemed appropriate by Integrys Support.
- 2.4 The method of assignment or allocation of costs contemplated herein and in Exhibit C and/or the Allocation Factor or Factors assigned to any category of service in Exhibit B, may be modified or changed by Integrys Support, without amendment of this Agreement other than insertion of appropriate replacement Exhibits, provided that (i) all services rendered hereunder shall be at actual cost thereof, (ii) such costs are fairly and equitably assigned or allocated in a manner consistent with Section 2.2, and (iii) the Parties comply with the requirements of Section 7.3.

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2.5 With respect to any charges imposed by Integrys Support for services provided under this Agreement that are subject to the jurisdiction of the FERC, no Party shall elect, or cause any affiliate to elect on their behalf, to have the FERC review pursuant to Section 1275 of the Energy Policy Act of 2005, 42 U.S.C. § 16462, the allocation of costs for goods and services provided by Integrys Support until the Commissions with jurisdiction to do so have reviewed and taken required actions regarding the affiliated interest transactions and agreements, or amendments thereto, associated with Integrys Support. If the Commissions have not completed review and approval or taken other appropriate action within a reasonable time, then any Party or its affiliate may seek such FERC review after giving the Commissions who have not so acted at least 60 days' prior written notice.

3.0 Billing; Payment; Related Provisions.

- 3.1 Integrys Support shall render a monthly bill to each Client Company reflecting the charges for services and property provided in the preceding month. Each bill shall include sufficient information and in sufficient detail to permit each Client Company to identify and classify the charge in terms of the system of accounts prescribed by the regulatory authorities to which it is subject.
- 3.2 Upon receipt of a monthly bill for services rendered by Integrys Support hereunder, each Client Company shall promptly pay any undisputed portion of the bill within ten (10) business days.
- 3.3 If a Client Company disputes the calculation of any portion of a monthly bill it shall, when it pays the undisputed portion as contemplated by Section 3.2 or in any event no later than sixty (60) days after receiving the bill, inform Integrys Support in writing as to its reasons for its dispute. Integrys Support and the

Exhibit 2.1

Client Company shall then meet to resolve in good faith the dispute, and shall involve the other Client Companies in the resolution of the dispute to the extent necessary and appropriate.

4.0 Accounting and Recordkeeping; Annual FERC Reports; Cost Studies; Annual Client and Integrys Support Company Reports; Internal Audit.

4.1 All accounts and records of Integrys Support shall be kept in accordance with the relevant requirements promulgated by the FERC from time to time, including without limitation Parts 367 and 368 of the FERC's regulations. Without limiting the foregoing, Integrys Support shall maintain adequate books and records with respect to all of its transactions hereunder, and shall record the costs to be allocated to the Client Companies in appropriate accounts in its general ledger system. Integrys Support shall be responsible for maintaining internal controls to ensure the costs associated with all transactions hereunder are properly and consistently allocated and billed in accordance with the terms and provisions of this Agreement.

4.2 Integrys Support shall provide the Commissions and the Client Companies a copy of its FERC Form No. 60, or such other annual report required by the FERC of centralized service companies from time to time, contemporaneous with its annual filing of such report with the FERC. Integrys Support shall also file with the Commissions, contemporaneous with its annual filing of such report with the FERC, the following schedules. These schedules shall list all costs incurred by Integrys Support and all costs allocated to all entities to whom Integrys Support provides or provided services. In Illinois, these schedules shall be filed as supplemental schedules to Form 21.

a) A schedule summarizing the direct and indirect charges for each functional area in Exhibit B. The report shall present the dollar amounts and

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percentages charged to each party to this Agreement as listed in Exhibit A, as well as to all other entities that receive direct or indirect charges from Integrys Support for such functional areas.

- b) A schedule providing a breakdown by subaccount of Account 923, Outside Services Employed. The schedule shall aggregate amounts paid to any one payee in each subaccount. If one subaccount is less than \$100,000, only the aggregate number and amount of all such payments included within the subaccount shall be shown. The schedule shall include subtotals for each type of service.
 - c) A schedule providing a listing of each pension and benefit program provided by Integrys Support. Such listing shall be limited to amounts over \$100,000.
 - d) A schedule providing a listing of the amount included in Account 930.1, General Advertising Expenses, classifying the items according to the nature of the advertising and as defined in the account definition. If a particular class includes an amount in excess of \$100,000 applicable to a single payee, show separately the name of the payee and the aggregate amount applicable thereto.
 - e) A schedule providing a listing of the amount included in Account 931, Rents, classifying such expenses by major groupings of property, as defined in the account definition of the Uniform System of Accounts in Part 367 of the FERC's regulations.
 - f) A schedule providing an analysis of Account 408, Taxes Other Than Income. The report shall separate the analysis into two groups (1) other than U.S. Government taxes and (2) U.S. Government taxes. The report shall specify each of the various kinds of taxes and show the accounts thereof. A subtotal shall be provided for each class of tax.
 - g) A schedule providing a listing of the amount included in Account 426.1, Donations, classifying such expense by its purpose. The aggregate number and amount of all items of less than \$100,000 may be shown in lieu of details.
 - h) A schedule providing a listing of the amount included in Account 426.5, Other Deductions, classifying such expenses according to their nature.
- 4.3 At least once every three years, Integrys Support shall conduct a new study of the cost of services provided hereunder, for the purpose of testing compliance with the Agreement and to analyze the market price of services provided. The study shall be updated at least annually. Integrys Support shall provide each Client Company with a copy of each new study or update, as the case may be, no later than May 1 of the year following the end of the most recently completed

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fiscal year covered by the new study or update. The first such new study shall pertain to the period ending December 31, 2008, and shall be due on or before May 1, 2009.

- 4.4 Each year there shall be an internal audit of Integrys Support's transactions involving each of the Client Companies for the purpose of testing compliance with the Agreement. In addition, the audit will include a review of transactions involving other entities to whom Integrys Support provides service as well as the verification that all direct billings to regulated and non-regulated affiliates as well as unaffiliated parties, if applicable, were properly deducted prior to the allocations being calculated. The Client Companies shall submit a copy of the audit report to the person or department designated by the Commissions or the Commissions' staffs no later than July 1 of each year. In Illinois, the report shall be submitted to the ICC's Manager of the Accounting Department or any successor. The first such audit report shall pertain to the period ending December 31, 2008, and shall be due on or before July 1, 2009.
- 4.5 Each year by May 1, the Client Companies shall file with their respective Commissions, and submit a copy to the person or department designated by the Commissions or the Commissions' staffs, billing reports showing monthly charges by Integrys Support to each of the Client Companies. These reports shall show all costs incurred by Integrys Support and all costs allocated to all entities to whom Integrys Support provides services. In Illinois, the report shall be submitted to the ICC's Manager of the Accounting Department or any successor.

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5.0 Representations and Warranties of the Parties.

- 5.1 Each Party has the right, power, and authority to enter into and perform its obligations under this Agreement.
- 5.2 Each Party has taken all requisite corporate action to approve execution, delivery, and performance of this Agreement, and this Agreement constitutes a legal, valid and binding obligation of each Party enforceable in accordance with its terms.
- 5.3 The fulfillment of obligations hereunder will not constitute a material violation of any existing applicable law, rule, regulation, or order of any governmental authority. The Parties acknowledge that all or portions of this Agreement may be challenged before regulatory agencies or a court of competent jurisdiction by other persons or entities not Parties hereto. In such event, the Parties agree that each will use its best efforts before such agencies and courts to support the pursuit and accomplishment of the Parties' mutual endeavors hereunder.

6.0 Additional Representations, Warranties and Covenants of Integrys Support.

- 6.1 In its performance of services hereunder, Integrys Support: (i) shall follow applicable federal and state regulations, including codes and standards of conduct, with respect to the sharing of confidential information it receives from any Client Company with another; (ii) shall not give one or more Client Companies, or any other affiliate within the Integrys holding company system, a competitive advantage in relevant markets; and (iii) shall not subsidize any Client Company and shall not cause any Client Company to subsidize any of its affiliates.
- 6.2 Integrys Support shall make readily available to each Commission, FERC and/or any other governmental or regulatory agency with jurisdiction under applicable

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law, reasonable access to its books and records (including without limitation the basis for its computation of cost allocations) as may be necessary for each Commission or other agency to review Integrys Support's transactions with each Client Company within such Commission's or agency's jurisdiction. Without limiting the foregoing, each Commission shall have full access to the books and records of Integrys Support as contemplated under applicable law, which access shall be made readily available to each Commission in their respective states.

7.0 Additional Provisions.

- 7.1 This Agreement shall become effective upon the issuance of approvals or waivers as might be required by law, from each and all of the Commissions, and upon execution of the Agreement by all of the Parties. Once effective, this Agreement shall continue in full force and effect until and unless modified or terminated as provided herein.
- 7.2 This Agreement may be amended or modified at any time by mutual agreement of the Parties in writing. This Agreement, and any rights hereunder, may not be assigned without the written consent of all Parties hereto. Except as otherwise provided herein or under applicable law, any such modification, amendment or assignment shall not become effective until receipt of approvals or waivers by the Commissions as might be required by law. The addition of a Party to this Agreement, or the termination of this Agreement as to a Party, shall not require the prior approval of the Commissions, but in either case Integrys Support shall provide the Commissions at least sixty (60) days prior written notice of such event.
- 7.3 At least sixty (60) days prior to any change to (i) Exhibit A reflecting the current Parties to this Agreement, (ii) Exhibit B reflecting the services and categories of

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service provided by Integrys Support hereunder, and/or (iii) Exhibit C reflecting all Allocation Factors in use hereunder, Integrys Support shall provide to the Client Companies, and the Client Companies shall file with the Commissions and, if appropriate, the FERC, a revised version of such Exhibit(s) to be changed along with an indication of what change(s) will be made.

- 7.4 At least sixty (60) days prior to leaving the Integrys holding company system, a Client Company shall provide written notice to Integrys Support, and Integrys Support will then copy the other Parties and the Commissions as soon as practicable upon receipt of any such notice. Any such Client Company may continue to receive services from Integrys Support for a reasonable transitional period of time following such departure from the Integrys holding company system.
- 7.5 In providing all services, Integrys Support may arrange, where it deems appropriate, for the services of such third party experts, consultants, attorneys, advisers, or other contractors or agents with necessary qualifications as may be required for or pertinent to the performance of services for the Client Companies hereunder.
- 7.6 Each Party shall treat in confidence all information that it may obtain from or regarding the other Parties and their respective businesses during the term of this Agreement. Each Party agrees to protect the other Parties' information using the same degree of care with which they use to protect their own confidential information, and in no event less than reasonable care. Except to the extent disclosure of such information is required by a governmental authority having jurisdiction, such information shall not be communicated to any person other than the Parties, and shall be shared among the Parties only to the extent certain

Exhibit 2.1

persons need to know such information in order for the Parties to perform under this Agreement. If a Party is required to disclose confidential information to a governmental authority, such Party shall take reasonable steps to make such disclosure confidential under the rules of such governmental authority. Information provided hereunder shall remain the sole property of the Party providing such information. The requirements of this Section 7.6 shall not apply with respect to information that (i) is or becomes available to such Party from a source other than the Party providing such information, unless such other source has imposed confidentiality restrictions, or (ii) is or becomes available to the public other than as a result of disclosure by such Party or its agents.

- 7.7 The Parties agree and acknowledge that any legal advice or legal services provided, or arranged to be provided, by or on behalf of Integrys Support to one or more of the Client Companies will be for the direct or indirect benefit or common interest of all of the Client Companies, and it is therefore the intention of all Parties hereto to maintain all privileges that may apply to any communications related to the provision or receipt of such legal advice or services.
- 7.8 The Client Companies hereby appoint Integrys Support as agent to represent them in performing services for or on behalf of the Client Companies. The Client Companies also authorize Integrys Support to purchase (i.e., take title to) various commodities, goods and assets in connection with its performance of services hereunder, and to resell (i.e., convey title to) such commodities, goods and assets to the Client Companies if necessary in the course of performing services hereunder. Any resale of such commodities, goods and assets by Integrys Support to the Client Companies, and/or any use of such commodities, goods and assets by Integrys Support in its provision of services hereunder, shall be at

Exhibit 2.1

the costs incurred by Integrys Support, allocated among the Client Companies pursuant to the methodologies prescribed herein. Integrys Support shall be accountable for all funds advanced or collected on behalf of a Client Company in connection with any transaction in respect of which Integrys Support provides services. The provision of services by Integrys Support hereunder shall in all cases and notwithstanding anything herein to the contrary be subject to any limitations contained in authorizations, rules or regulations of those governmental agencies having jurisdiction over Integrys Support or its provision of services hereunder.

- 7.9 In the event that any amendment to this Agreement does not receive any approval or waiver of approval by all Commissions that may be required from time to time, then the Parties shall promptly negotiate in good faith new provisions to restore such amendment, as nearly as possible, to its original intent and effect, and thereafter file for approval or waiver of approval of the Commissions.
- 7.10 If any governmental or regulatory agency or court of competent jurisdiction holds that any provision of this Agreement is invalid, or otherwise takes action resulting in the impossibility or impracticability of performance of all or a portion of this Agreement, the remainder of this Agreement shall not be affected thereby and shall continue in full force and effect. In the event any provision of this Agreement is so held invalid, the Parties hereto shall promptly renegotiate in good faith new provisions to restore this Agreement as nearly as possible to its original intent and effect.
- 7.11 No course of dealing or course of performance between the Parties shall be construed to alter the terms hereof.

Exhibit 2.1

- 7.12 The Parties agree that there is no third party beneficiary of this Agreement and that the provisions of this Agreement do not impart enforceable rights to anyone who is not a Party.
- 7.13 This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, without regard to principles of conflicts of law; provided, however, that no Client Company shall be required to comply with this Agreement to the extent such compliance would be a violation of the public utility laws of any state in which such Client Company conducts its regulated utility operations.
- 7.14 This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized as of the day and year first above written.

INTEGRYS BUSINESS SUPPORT, LLC

WISCONSIN PUBLIC SERVICE CORP.

By _____

By _____

Name _____

Name _____

Title _____

Title _____

UPPER PENINSULA POWER COMPANY

MICHIGAN GAS UTILITIES CORP.

By _____

By _____

Name _____

Name _____

Title _____

Title _____

MINNESOTA ENERGY RESOURCES
CORP.

THE PEOPLES GAS LIGHT AND COKE
COMPANY

By _____

By _____

Name _____

Name _____

Title _____

Title _____

NORTH SHORE GAS COMPANY

By _____

Name _____

Title _____

Exhibit A

Client Company Parties to the
Master Regulated Affiliated Interest Agreement

Michigan Gas Utilities Corporation

a Delaware-incorporated Michigan public utility headquartered in Green Bay, Wisconsin, engaged in the business of providing natural gas service

Minnesota Energy Resources Corporation

a Delaware-incorporated Minnesota public utility headquartered in Green Bay, Wisconsin, engaged in the business of providing natural gas service

North Shore Gas Company

an Illinois public utility corporation headquartered in Chicago, Illinois, engaged in the business of providing natural gas service

The Peoples Gas Light and Coke Company

an Illinois public utility corporation headquartered in Chicago, Illinois, engaged in the business of providing natural gas service

Upper Peninsula Power Company

a Michigan public utility corporation headquartered in Houghton, Michigan, engaged in the business of providing regulated electric service

Wisconsin Public Service Corporation

a Wisconsin public utility corporation headquartered in Green Bay, Wisconsin, engaged in the business of providing regulated electric and natural gas service

Exhibit B

1. Administrative services

Facility management services for owned and leased facilities, excluding power plants. This includes operations and maintenance of structures, capital improvements, interior space planning, security and janitorial. Acquisition and management of real estate and land rights including easements and right-of-ways. Printing services.

Expected Allocation Factors – (1) Square Footage; (2) Number of Key Cards; (3) Number of Imprints; (4) Number of Office Moves; (5) FTE Work Estimate.

2. Corporate development

Strategic planning, merger and acquisition analysis and support, market intelligence, project management, business and quality improvement processes, business development, asset analysis and divestiture, and resource allocation. Determine, implement and track corporate performance goals, initiatives and measures.

Expected Allocation Factors – (1) General/Corporate.

3. Corporate secretary

Corporate secretarial services required of a publicly held corporation, including shareholder, board of director and related committee meetings and minutes.

Expected Allocation Factors – (1) General/Corporate.

4. Environmental

Performance of assessments, investigations, remediation and other activities as required to ensure compliance with applicable environmental statutes and regulations, permitting, licensing, due diligence, waste management and emergency response.

Expected Allocation Factors – (1) FTE Work Estimate.

5. Executive management

Executive management and oversight. Includes the formulation of general business plans and policies, selection of key management personnel, and allocation of financial resources.

Expected Allocation Factors – (1) General/Corporate.

6. External affairs

Exhibit 2.1

Preparation and dissemination of information to employees, customers, government officials, the public and the media. Governmental relations, community support and economic development. Analysis and formulation of regulatory policy, rate case preparation and rate administration.

Expected Allocation Factors – (1) Total Property, Plant and Equipment; (2) Number of Employees; (3) General/Corporate.

7. Financial services

Accounting, finance, treasury, tax, internal audit and relating financial services. Maintain corporate books and records, prepare financial and statistical reports, process payments to vendors, ensure compliance with tax laws and regulations, manage debt and maintain banking relationships, invest pension assets, establish and monitor internal controls, perform financial and risk analysis, prepare budgets and forecasts, maintain shareholder records, and communicate with the investment.

Expected Allocation Factors – (1) Number of Invoices Processed; (2) Number of Transactions; (3) Total Property, Plant and Equipment; (4) Percentage Equity in Investments; (5) Number of Employees; (6) FTE Work Estimate; (7) General/Corporate.

8. Human resources

Establishment and administration of policies and assuring compliance with legal requirements in the areas of employment, compensation, benefits and employee health and safety. Provide payroll and employee benefit administration. Provide employee training and development, recruiting and staffing services, employee communications and labor relations management.

Expected Allocation Factors – (1) Number of Employees; (2) Number of Paychecks.

9. Information technology

Telecommunications and electronic data processing services such as computer operations, software development and maintenance, network support, end-user support, database administration and information systems security.

Expected Allocation Factors – (1) Number of Personal Computers; (2) Number of Clicks; (3) Number of Phone Lines; (4) Number of Employees; (5) Project Plan Allocator; (6) Number of Printers; (7) Application Allocator; (8) Postage; (9) Number of Copies and Bills.

10. Legal services

Provision of all types of legal advice and related services including legal services related to corporate, commercial and contracts, litigation, regulatory, securities, real estate, legislative, employment and benefits, tax, intellectual property matters. In addition, insurance

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(procurement, management and general advice), claims management, corporate records (policies, procedures and management) and compliance (compliance with laws, ethics and code of conduct) services will also be provided.

Expected Allocation Factors – (1) General/Corporate; (2) Insurance Premium Allocator.

11. Supply chain

Acquisition and provision of goods and services other than fuel, energy commodities or energy transmission. Material inventory management, contract administration services, warehousing and logistics services. Establishment of standards, purchase and oversee the operation and maintenance of vehicles and related equipment.

Expected Allocation Factors – (1) Total Spend; (2) Number of Fleet Assets.

12. Gas engineering

Engineering support to gas distribution operations. Design and monitor the construction and maintenance of gas distribution lines. Ensure that construction activity is consistent with plans. Coordinate the planning and operation of gas distribution systems. Operate meter shops.

Expected Allocation Factors – (1) Feet of Installed/Replaced Pipeline; (2) Number of Meters Repaired; (3) Number of Employees.

13. Gas supply

Administrative functions related to purchasing, marketing and selling natural gas (including hedging and other risk management tools); scheduling, interrupting and curtailing natural gas deliveries; acquiring, selling, releasing and managing pipeline transportation capacity or storage capacity; gas control operations; and operating utility-owned underground gas storage fields. This function excludes all functions that are not ministerial in nature and excludes contract ownership, as each Client Company will continue to hold gas supply and capacity contracts in its own name.

Expected Allocation Factors – (1) Gas Throughput; (2) Peak Day Capacity; (3) FTE Work Estimate.

14. Customer relations

Provide services and systems dedicated to customer service, including meter reading and billing, credit, collections, customer relations, call center operations, revenue assurance, account management, market research and customer strategy.

Expected Allocation Factors – (1) Number of Customers; (2) FTE Work Estimate.

Exhibit C

Costs will be allocated through a tiered approach. This allocation methodology reflects operational aspects of the charge and applies costs in a meaningful and impartial method.

First and foremost, costs will be directly charged whenever appropriate and practicable. Direct charging is essentially a “100% allocation” of costs related to a particular service to the one entity receiving that service.

Second, where direct charging is not appropriate, costs will be allocated using cost causation principles that link costs related to a specific type of service to the customers receiving such service.

All other cost allocations will be broad based with a generalized cost basis proxy.

Specific Allocation Factors:

Number of Customers – Based on the average number of customers (electric and/or gas) at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Employees - Based on the average number of employees at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Copies and Bills – Based on the average number of copies and bills issued at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Invoices Processed – Based on the average number of invoices processed at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Transactions – Based on the average number of transactions processed in the system

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at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Paychecks – Based on the average number of paychecks at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Personal Computers – Based on the average number of personal computers at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Phone Lines – Based on the average number of phone lines at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Clicks – Based on the average number of clicks on the website page at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Printers – Based on the average number of printers at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Key Cards – Based on the number of key cards for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in

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circumstances.

Number of Imprints – Based on the number of imprints for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Office Moves – Based on the average number of office moves for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Total Spend – Based on the average total spend at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Total Property, Plant and Equipment – Based on average property, plant and equipment at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Square Footage – Based on average square footage occupied for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Postage – Based on average postage costs for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Project Plan Allocator – Based on the allocation of the specific project plan. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be

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required due to a significant change in circumstances.

Application Allocator – Based on the allocation of the specific application being worked on. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Full Time Equivalent (FTE) Work Estimate – Based on a recurring, predictable level of service. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Percentage Equity in Investments – Based on average percentage equity in investments for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Insurance Premium Allocator – Based on typical underwriting criteria. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

General/Corporate – Based on an equal weighting of assets (excluding hedge assets and goodwill) and O&M costs (excluding fuel costs) for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Gas Throughput – Based on gas throughput in dekatherms (sales and transportation) for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Feet of Installed/Replaced Pipeline – Based on average number of feet installed/replaced for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a

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significant change in circumstances.

Number of Fleet Assets – Based on the average number of fleet assets at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Meters Repaired – Based on the average number of meters repaired at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Peak Day Capacity (gas) – Based on the highest daily send out in therms (excluding transportation) for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

MASTER NON-REGULATED AFFILIATED INTEREST AGREEMENT

THIS MASTER NON-REGULATED AFFILIATED INTEREST AGREEMENT ("Agreement") is entered into this ____ day of _____, 2007, by and among Integrys Business Support, LLC, a Delaware limited liability company ("Integrys Support"); Integrys Energy Group, Inc., a Wisconsin corporation and a public utility holding company headquartered in Chicago, Illinois, ("Integrys"), and all of Integrys' non-regulated subsidiaries as listed in Exhibit A. All of the parties to this agreement shall be collectively referred to as "Parties," and all of the Parties other than Integrys Support shall be collectively referred to as the "Client Companies."

RECITALS

A. Each Client Company is a subsidiary of Integrys that does not provide state-regulated utility service to captive customers, and is not otherwise a "public-utility company" as that term is defined at 42 U.S.C. § 16451(14) and as such definition is construed by the Federal Energy Regulatory Commission ("FERC") in its regulations and orders.

B. In order to maximize efficiencies and economies of scale, the Parties desire to plan and operate certain aspects of their businesses with the integration of certain activities by sharing and receiving services, employees, properties, information systems, property, services and/or anything else of commercial value, all from a single centralized service provider.

C. Integrys Support was formed as a centralized service company to provide shared services to the Client Companies as well as other companies in the Integrys holding company system, in particular, the regulated operating company subsidiaries of Integrys, who will receive services from Integrys Support pursuant to a separate affiliated interest arrangement.

D. Integrys Support and the Client Companies desire to enter into this Agreement whereby Integrys Support agrees to provide, and the Client Companies agree to accept and pay for, various services as described herein, with such payments by the Client Companies being at the fairly and equitably allocated costs as also provided herein.

NOW, THEREFORE, the Parties agree as follows:

AGREEMENT

Integrys Support, Integrys and the other Parties, in consideration of the mutual promises made in this Agreement, agree as follows:

1.0 Provision of Services by Integrys Support

- 1.1 The term "services" as used in this Agreement shall include management, supervisory, construction, engineering, accounting, legal, financial, human resources, information services, customer service, accounting, billing, operations and other administrative and general services.
- 1.2 Except as otherwise provided herein or required under applicable law, Integrys Support shall furnish to each Client Company, as may be requested by each such Client Company from time to time, services in those categories listed and described in Exhibit B. Integrys Support shall also furnish to each Client Company services in addition to those listed and described in Exhibit B, as may be requested by each such Client Company from time to time, provided that Integrys Support is reasonably able and willing to perform or provide such additional services, and provided further that Exhibit B is modified from time to time in order to reflect any additional categories of services provided by Integrys Support. In connection with its provision of services hereunder, Integrys Support may also from time to time provide or furnish property, assets, rights, interests, or other items of commercial value.
- 1.3 Integrys Support shall furnish to the Client Companies the services described in Section 1.2 in such manner as the Client Companies reasonably require from time to time, unless Integrys Support is not reasonably able to perform or provide such services or is unable to do so in a manner consistent with applicable law.
- 1.4 Notwithstanding any other provision of this Agreement, a Client Company shall, upon at least one hundred twenty (120) days prior written notice, have the right to

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purchase the services described in Section 1.2 from a service provider other than Integrys Support if: (i) such third party service provider offers comparable services, (ii) the Client Company presents comparable internal and external costing and service data to demonstrate to Integrys Support that the third party services would be provided at a lower all-in price than the all-in price charged by Integrys Support for such services, and (iii) the Client Company presents comparable internal and external costing and service data to demonstrate to Integrys Support that provision of the services by a third party service provider will be of overall benefit to the Integrys holding company system. With respect to any such showing by a Client Company, all relevant information that is provided by any Client Company to Integrys Support shall be copied to all of the other Client Companies.

- 1.5 In the event that any Client Company appropriately refuses to take or accept any services from Integrys Support pursuant to Section 1.4, such refusal shall not otherwise affect any other right, duty or obligation of any Party hereunder.

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1.6 The services described herein shall be directly assigned or allocated by activity, project, program, work order or other appropriate manner on a case-by-case basis. Each Client Company may establish and document with Integrys Support its expectations and requirements with respect to any particular service to be rendered hereunder, including the establishment of targeted service and performance levels and measures to determine whether such service level indicators are being achieved. A Client Company shall have the right from time to time to modify any activity, project, program or work order provided that (i) any such modification that results in a material change in the scope of the services to be performed or equipment to be provided is acceptable to Integrys Support, (ii) the cost for the services covered by the activity, project, program or work order shall include any expense incurred by Integrys Support as a direct result of such modification of the activity, project, program or work order, and (iii) no modification of an activity, project, program or work order shall release a Client Company from liability for payment of all direct or allocable costs already incurred by or contracted for by Integrys Support pursuant to the activity, project, program or work order, regardless of whether the services associated with such costs have been completed prior to such modification taking effect.

2.0 Determination of Costs for Services.

2.1 All services provided by Integrys Support shall be at cost, as hereinafter defined. It is the intent of the Parties that the payment for services rendered by Integrys Support to the Client Companies hereunder shall cover all of Integrys Support's costs of doing business (less the cost of services provided to affiliates not a party to this Agreement and to non-affiliated companies, and credits for miscellaneous income items), including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages,

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employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization, payroll and other taxes, and compensation for use of capital (with a return on its net assets at a rate equal to the prevailing pre-tax weighted cost of capital (economic cost of capital) for Integrys Support's regulated affiliate Wisconsin Public Service Corporation).

- 2.2 As compensation to Integrys Support for the services rendered hereunder, each Client Company shall pay to Integrys Support all costs which are reasonably related to the services performed by Integrys Support for or on behalf of such Client Company. Integrys Support shall maintain a detailed cost accumulation and classification system, and shall allocate costs to each Client Company pursuant to the following methodology: (i) to the extent possible, costs associated with a service that is specifically performed for a single Client Company will be directly assigned and billed to that Client Company; (ii) where more than one Client Company receives benefits from a service, such amounts shall be allocated among such Client Companies (and any other affiliates within the Integrys holding company system to whom the service is rendered by Integrys Support) pursuant to the applicable cost Allocation Factor(s) set forth in Exhibit C; and (iii) where a service provided by Integrys Support is of a general nature applicable to all Client Companies, costs incurred by Integrys Support with respect to such service shall be allocated among the Client Companies (and any other affiliates within the Integrys holding company system to whom applicable services are rendered by Integrys Support) pursuant to the applicable cost Allocation Factor set forth in Exhibit C.
- 2.3 The Allocation Factors set forth in Exhibit C shall be subject to periodic review by Integrys Support in connection with the studies required by Section 4.3, and may be reviewed more frequently if deemed appropriate by Integrys Support.

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2.4 The method of assignment or allocation of costs contemplated herein and in Exhibit C and/or the Allocation Factor or Factors assigned to any category of service in Exhibit B, may be modified or changed by Integrys Support, without amendment of this Agreement, provided that all services rendered hereunder shall be at actual cost thereof, and further provided that such costs are fairly and equitably assigned or allocated in a manner consistent with Section 2.2.

3.0 Billing; Payment; Related Provisions.

3.1 Integrys Support shall render a monthly bill to each Client Company reflecting the charges for services and property provided in the preceding month. Each bill shall include sufficient information and in sufficient detail to permit each Client Company to identify and classify the charge in terms of the system of accounts prescribed by the regulatory authorities to which it is subject.

3.2 Upon receipt of a monthly bill for services rendered by Integrys Support hereunder, each Client Company shall promptly pay any undisputed portion of the bill within thirty (30) days.

3.3 If a Client Company disputes the calculation of any portion of a monthly bill it shall, at or before the time it pays the undisputed portion as contemplated by Section 3.2 and in no event later than thirty (30) days after receiving the bill, inform Integrys Support in writing as to its reasons for its dispute. Integrys Support and the Client Company shall then meet to resolve in good faith the dispute, and shall involve the other Client Companies in the resolution of the dispute to the extent necessary and appropriate.

4.0 Accounting and Recordkeeping; Annual FERC Reports; Cost Studies; Annual Client Company Reports.

4.1 All accounts and records of Integrys Support shall be kept in accordance with the relevant requirements promulgated by the FERC from time to time, including without limitation Parts 367 and 368 of the FERC's regulations. Without limiting the

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foregoing, Integrys Support shall maintain adequate books and records with respect to all of its transactions hereunder, and shall record the costs to be allocated to the Client Companies in appropriate accounts in its general ledger system. Integrys Support shall be responsible for maintaining internal controls to ensure the costs associated with all transactions hereunder are properly and consistently allocated and billed in accordance with the terms and provisions of this Agreement.

4.2 Integrys Support shall provide the Client Companies a copy of its FERC Form No. 60 (Part 369 of the FERC's regulations), or such other annual report required by the FERC of centralized service companies from time to time, contemporaneous with its annual filing of such report with the FERC.

4.3 At least once every three years, Integrys Support shall conduct a new study of the cost of services provided hereunder, for the purpose of testing compliance with the Agreement and to analyze the market price of services provided. The study shall be updated at least annually. Integrys Support shall provide each Client Company with a copy of each new study or update, as the case may be, no later than May 1 of the year following the end of the most recently completed fiscal year covered by the new study or update. The first such new study shall pertain to the period ending December 31, 2008, and shall be due on or before May 1, 2009.

5.0 Representations and Warranties of the Parties.

5.1 Each Party has the right, power, and authority to enter into and perform its obligations under this Agreement.

5.2 Each Party has taken all requisite corporate action to approve execution, delivery, and performance of this Agreement, and this Agreement constitutes a legal, valid and binding obligation of each Party enforceable in accordance with its terms.

5.3 The fulfillment of obligations hereunder will not constitute a material violation of any existing applicable law, rule, regulation, or order of any governmental authority. The

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Parties acknowledge that all or portions of this Agreement may be challenged before regulatory agencies or a court of competent jurisdiction by other persons or entities not Parties hereto. In such event, the Parties agree that each will use its best efforts before such agencies and courts to support the pursuit and accomplishment of the Parties' mutual endeavors hereunder.

6.0 Additional Representations, Warranties and Covenants of Integrys Support.

- 6.1 In its performance of services hereunder, Integrys Support: (i) shall follow applicable federal and state regulations, including codes and standards of conduct, with respect to the sharing of confidential information it receives from any Client Company with another; (ii) shall not give one or more Client Companies, or any other affiliate within the Integrys holding company system, a competitive advantage in relevant markets; and (iii) shall not subsidize any Client Company and shall not cause any Client Company to subsidize any of its affiliates.
- 6.2 Integrys Support shall make readily available to the FERC, and any other governmental agency with jurisdiction under applicable law, reasonable access to its books and records (including without limitation the basis for its computation of cost allocations) as may be necessary for any such agency to review, to the extent of its regulatory authority, Integrys Support's transactions with the Client Companies.

7.0 Additional Provisions.

- 7.1 This Agreement shall become effective upon the commencement of operations by Integrys Support, and upon execution of the Agreement by all of the signing Parties. Once effective, this Agreement shall continue in full force and effect until and unless modified or terminated as provided herein.
- 7.2 This Agreement may be amended or modified at any time by mutual agreement of the undersigned Parties in writing. This Agreement, and any rights hereunder, may not be assigned without the written consent of all of the undersigned Parties.

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- 7.3 At least sixty (60) days prior to leaving the Integrys holding company system, a Client Company shall provide written notice to Integrys Support, copying the other Parties. Any such Client Company may continue to receive services from Integrys Support for a reasonable transitional period of time following such departure from the Integrys holding company system.
- 7.4 At least sixty (60) days prior to any change to (i) Exhibit A reflecting the current Parties to this Agreement, (ii) Exhibit B reflecting the services and categories of service provided by Integrys Support hereunder, and/or (iii) Exhibit C reflecting all Allocation Factors in use hereunder, Integrys Support shall provide to the Client Companies a revised version of such Exhibit(s) to be changed along with an indication of what change(s) will be made.
- 7.5 Integrys Support may require the Client Companies to provide deposits from time to time, due and related to any expected lag time between Integrys Support incurring costs in its performance of services hereunder and Integrys Support receiving payment for its performance of such services hereunder.
- 7.6 In providing all services, Integrys Support may arrange, where it deems appropriate, for the services of such third party experts, consultants, attorneys, advisers, or other contractors or agents with necessary qualifications as may be required for or pertinent to the performance of services for the Client Companies hereunder.
- 7.7 Each Party shall treat in confidence all information that it may obtain from or regarding the other Parties and their respective businesses during the term of this Agreement. Each Party agrees to protect the other Parties' information using the same degree of care with which they use to protect their own confidential information, and in no event less than reasonable care. Except to the extent disclosure of such information is required by a governmental authority having jurisdiction, such information shall not be communicated to any person other than the

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Parties, and shall be shared among the Parties only to the extent certain persons need to know such information in order for the Parties to perform under this Agreement. If a Party is required to disclose confidential information to a governmental authority, such Party shall take reasonable steps to make such disclosure confidential under the rules of such governmental authority. Information provided hereunder shall remain the sole property of the Party providing such information. The requirements of this Section 7.7 shall not apply with respect to information that (i) is or becomes available to such Party from a source other than the Party providing such information, unless such other source has imposed confidentiality restrictions, or (ii) is or becomes available to the public other than as a result of disclosure by such Party or its agents.

- 7.8 The Parties agree and acknowledge that any legal advice or legal services provided, or arranged to be provided, by or on behalf of Integrys Support to one or more of the Client Companies will be for the direct or indirect benefit or common interest of all of the Client Companies, and it is therefore the intention of all Parties hereto to maintain all privileges that may apply to any communications related to the provision or receipt of such legal advice or services
- 7.9 The Client Companies hereby appoint Integrys Support as agent to represent them in performing services for or on behalf of the Client Companies. The Client Companies also authorize Integrys Support to purchase (i.e., take title to) various commodities, goods and assets in connection with its performance of services hereunder, and to resell (i.e., convey title to) such commodities, goods and assets to the Client Companies if necessary in the course of performing services hereunder. Any resale of such commodities, goods and assets by Integrys Support to the Client Companies, and/or any use of such commodities, goods and assets by Integrys Support in its provision of services hereunder, shall be at the costs incurred by

Attachment 2

Integrus Support, allocated among the Client Companies pursuant to the methodologies prescribed herein. Integrus Support shall be accountable for all funds advanced or collected on behalf of a Client Company in connection with any transaction in respect of which Integrus Support provides services. The provision of services by Integrus Support hereunder shall in all cases and notwithstanding anything herein to the contrary be subject to any limitations contained in authorizations, rules or regulations of those governmental agencies having jurisdiction over Integrus Support or its provision of services hereunder.

- 7.10 In the event that any amendment to this Agreement does not receive all necessary approvals or waivers from any regulatory or governmental authority that may be required from time to time, then the undersigned Parties shall promptly negotiate in good faith new provisions to restore such amendment, as nearly as possible, to its original intent and effect, and thereafter re-file for such approval(s) or waiver(s).
- 7.11 If any governmental or regulatory agency or court of competent jurisdiction holds that any provision of this Agreement is invalid, or otherwise takes action resulting in the impossibility or impracticability of performance of all or a portion of this Agreement, the remainder of this Agreement shall not be affected thereby and shall continue in full force and effect. In the event any provision of this Agreement is so held invalid, the Parties hereto shall promptly renegotiate in good faith new provisions to restore this Agreement as nearly as possible to its original intent and effect.
- 7.12 No course of dealing or course of performance between the Parties shall be construed to alter the terms hereof.
- 7.13 The Parties agree that there is no third party beneficiary of this Agreement and that the provisions of this Agreement do not impart enforceable rights to anyone who is not a Party.

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- 7.14 This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, without regard to principles of conflicts of law.
- 7.15 This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument.

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IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized as of the day and year first above written.

INTEGRYS BUSINESS SUPPORT, LLC

INTEGRYS ENERGY GROUP, INC.

For itself and its non-regulated subsidiaries
(other than Integrys Energy Services, Inc.
and its subsidiaries)

By_____

By_____

Name_____

Name_____

Title_____

Title_____

INTEGRYS ENERGY SERVICES, INC.

For itself and its subsidiaries

By_____

By_____

Name_____

Name_____

Title_____

Title_____

Exhibit A

Client Company Parties to the
Master Non-Regulated Affiliated Interest Agreement

Exhibit B

1. Administrative services

Facility management services for owned and leased facilities, excluding power plants. This includes operations and maintenance of structures, capital improvements, interior space planning, security and janitorial. Acquisition and management of real estate and land rights including easements and right-of-ways. Printing services.

Expected Allocation Factors – (1) Square Footage; (2) Number of Key Cards; (3) Number of Imprints; (4) Number of Office Moves; (5) FTE Work Estimate.

2. Corporate development

Strategic planning, merger and acquisition analysis and support, market intelligence, project management, business and quality improvement processes, business development, asset analysis and divestiture, and resource allocation. Determine, implement and track corporate performance goals, initiatives and measures.

Expected Allocation Factors – (1) General/Corporate.

3. Corporate secretary

Corporate secretarial services required of a publicly held corporation, including shareholder, board of director and related committee meetings and minutes.

Expected Allocation Factors – (1) General/Corporate.

4. Environmental

Performance of assessments, investigations, remediation and other activities as required to ensure compliance with applicable environmental statutes and regulations, permitting, licensing, due diligence, waste management and emergency response.

Expected Allocation Factors – (1) FTE Work Estimate.

5. Executive management

Executive management and oversight. Includes the formulation of general business plans and policies, selection of key management personnel, and allocation of financial resources.

Expected Allocation Factors – (1) General/Corporate.

6. External affairs

Preparation and dissemination of information to employees, customers, government officials, the public and the media. Governmental relations, community support and economic development. Analysis and formulation of regulatory policy, preparation for and participation in regulatory proceedings.

Expected Allocation Factors – (1) Total Property, Plant and Equipment; (2) Number of Employees; (3) General/Corporate.

7. Financial services

Accounting, finance, treasury, tax, internal audit and relating financial services. Maintain corporate books and records, prepare financial and statistical reports, process payments to vendors, ensure compliance with tax laws and regulations, manage debt and maintain banking relationships, invest pension assets, establish and monitor internal controls, perform financial and risk analysis, prepare budgets and forecasts, maintain shareholder records, and communicate with the investment.

Expected Allocation Factors – (1) Number of Invoices Processed; (2) Number of Transactions; (3) Total Property, Plant and Equipment; (4) Percentage Equity in Investments; (5) Number of Employees; (6) FTE Work Estimate; (7) General/Corporate.

8. Human resources

Establishment and administration of policies and assuring compliance with legal requirements in the areas of employment, compensation, benefits and employee health and safety. Provide payroll and employee benefit administration. Provide employee training and development, recruiting and staffing services, employee communications and labor relations management.

Expected Allocation Factors – (1) Number of Employees; (2) Number of Paychecks.

9. Information technology

Telecommunications and electronic data processing services such as computer operations, software development and maintenance, network support, end-user support, database administration and information systems security.

Expected Allocation Factors – (1) Number of Personal Computers; (2) Number of Clicks; (3) Number of Phone Lines; (4) Number of Employees; (5) Project Plan Allocator; (6) Number of Printers; (7) Application Allocator; (8) Postage; (9) Number of Copies and Bills.

10. Legal services

Provision of all types of legal advice and related services including legal services related to corporate, commercial and contracts, litigation, regulatory, securities, real estate, legislative, employment and benefits, tax, intellectual property matters. In addition, insurance (procurement, management and general advice), claims management, corporate records (policies, procedures and management) and compliance (compliance with laws, ethics and code of conduct) services will also be provided.

Expected Allocation Factors – (1) General/Corporate; (2) Insurance Premium Allocator.

11. Supply chain

Acquisition and provision of goods and services other than fuel, energy commodities or energy transmission. Material inventory management, contract administration services, warehousing and logistics services. Establishment of standards, purchase and oversee the operation and maintenance of vehicles and related equipment.

Expected Allocation Factors – (1) Total Spend.

Exhibit C

Costs will be allocated through a tiered approach. This allocation methodology reflects operational aspects of the charge and applies costs in a meaningful and impartial method.

First and foremost, costs will be directly charged whenever appropriate and practicable. Direct charging is essentially a “100% allocation” of costs related to a particular service to the one entity receiving that service.

Second, where direct charging is not appropriate, costs will be allocated using cost causation principles that link costs related to a specific type of service to the customers receiving such service.

All other cost allocations will be broad based with a generalized cost basis proxy.

Specific Allocation Factors:

Number of Customers – Based on the average number of customers (electric and/or gas) at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Employees - Based on the average number of employees at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Copies and Bills – Based on the average number of copies and bills issued at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Invoices Processed – Based on the average number of invoices processed at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Transactions – Based on the average number of transactions processed in the system at

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the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Paychecks – Based on the average number of paychecks at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Personal Computers – Based on the average number of personal computers at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Phone Lines – Based on the average number of phone lines at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Clicks – Based on the average number of clicks on the website page at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Printers – Based on the average number of printers at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Key Cards – Based on the number of key cards for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

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Number of Imprints – Based on the number of imprints for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Number of Office Moves – Based on the average number of office moves for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Total Spend – Based on the average total spend at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Total Property, Plant and Equipment – Based on average property, plant and equipment at the end of the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Square Footage – Based on average square footage occupied for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Postage – Based on average postage costs for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Project Plan Allocator – Based on the allocation of the specific project plan. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Application Allocator – Based on the allocation of the specific application being worked on. The

Attachment 2

numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Full Time Equivalent (FTE) Work Estimate – Based on a recurring, predictable level of service. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Percentage Equity in Investments – Based on average percentage equity in investments for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

Insurance Premium Allocator – Based on typical underwriting criteria. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.

General/Corporate – Based on an equal weighting of assets (excluding hedge assets and goodwill) and O&M costs (excluding fuel costs) for the most recent 12 months at the time the budget is prepared. The numerator of which is for a Client Company and the denominator of which is for all Client Companies (or specific Client Companies receiving the service allocated per this factor, if not all Companies are receiving the service.) This ratio will be determined annually and/or at such time as may be required due to a significant change in circumstances.